



# Introduction to Development

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This document presents an overview of development concepts and terminology and is intended for entry-level development officers and support staff who may not be familiar with non-profit fundraising.

Topics include:

- What is Development?
- What are the Different Types of Fundraising?
- Who are Donors? (Fundraising Models and Stages of Development)
- What are the Different Types of Gifts?
- Where Do Gifts Go?
- How Do I Learn More?

## What is Development?

For some, development is another word for fundraising. However, development (in some organizations referred to as advancement) is focused on building and enhancing relationships with donors that engages them and demonstrates how their philanthropic investment is performing. Some of the most substantial development efforts are conducted by colleges and universities.

Prospective donors who give to higher education include alumni, parents, friends, grateful patients, private foundations, and corporations. The classic development program at institutions of higher learning include prospect identification, prospect research and verification of the prospect's viability, cultivation, solicitation, and finally stewardship, the latter being the process of keeping donors informed about how past support has been used.

Most institutions use professional development officers to conduct fundraising for both the entire institution or individual colleges and departments. The term "professional fundraiser" is in many cases a legislated term referring to third-party firms whose services are contracted; whereas "fundraising professionals" or development officers are often individuals or staff at charitable non-profit organizations.

## What are the Different Types of Fundraising?

Most development programs make a distinction between annual fund appeals and major campaigns. Additionally, gifts can be deferred through planned giving.

### Annual Giving

The Annual Fund focuses on gifts made each year, usually in the form of a pledge. In this type of nonprofit fundraising, there usually is a donor base that is designated to be asked for this type of gift. Annual Giving uses direct mail and phone calls to solicit these donors. Typically, these gifts are smaller, more frequent gifts, ranging from a small amount up to a leadership level of giving.



## Campaign Fundraising

A Campaign is fundraising that is conducted to raise a specified major sum of money within a defined period of time. Campaign fundraising includes each of the constituent groups: individuals, corporations and foundations. A capital campaign normally begins with a private phase before launching a public appeal.

Various types of capital campaigns have been identified. The traditional "brick and mortar" campaign, focuses on building construction or improvements. Another type of capital campaign is the comprehensive, integrated, or total development campaign, which aims for a longer fund-raising program based on a long-term analysis of the organization's needs and direction. This type of campaign can include fundraising for capital, endowments, and programmatic funds.

### Grants and Matching Gifts

Non-profit organizations raise funds through competing for grant funding. Grants are offered by governmental units and private foundations/charitable trusts to non-profit organizations for the benefit of all parties to the transaction.

Corporate charitable giving consists of grants as well as matching gift and volunteer grants that are geared toward nonprofits which employees are passionate about. Many nonprofits use third-party services to help automate matching gift and volunteer grant receipts and increase fundraising from these two sources.

### Special Events

Special events are another method of raising funds. These range from formal dinners to benefit concerts to walkathons. Events are used to increase visibility and support for an organization as well as raising funds. Events can feature activities for the group such as speakers, a dance, an outing or entertainment, to encourage group participation and giving. Events and their associated fundraisers can be a major source of a group's revenue, visibility and donor relations.

## Planned Giving

Planned Giving consists of gifts, either current or deferred, that involve the donor's financial, estate and/or tax planning. Such gifts are often done with the assistance of the donor's attorney, and/or financial professional and can include real estate, trusts, and other investments.

## Who Are Donors?

Donors are people who are motivated to give. There are several motivators for a donor, but the primary motivator of donor giving is a deeply-held desire to make a difference. There are different types of donors, depending on their level of emotional commitment and loyalty to the mission of the organization. To better understand how donors differ, we need to understand the fundraising process.

## The Fundraising Process

The traditional fundraising model shows a focus on the organization and what it must do to get the gift:

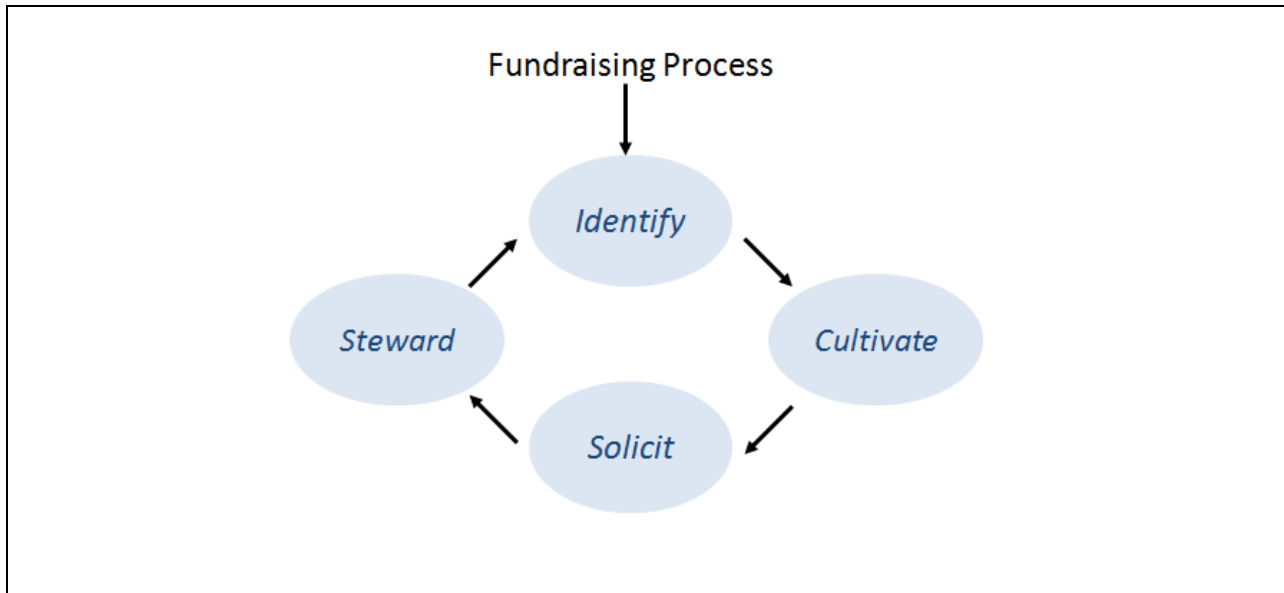


Figure 1: Traditional fundraising model with focus on the organization (from Advancement Resources)

A newer model for the process of facilitating donor development, centers around the donor and moves through the steps many times during the relationship with a donor:

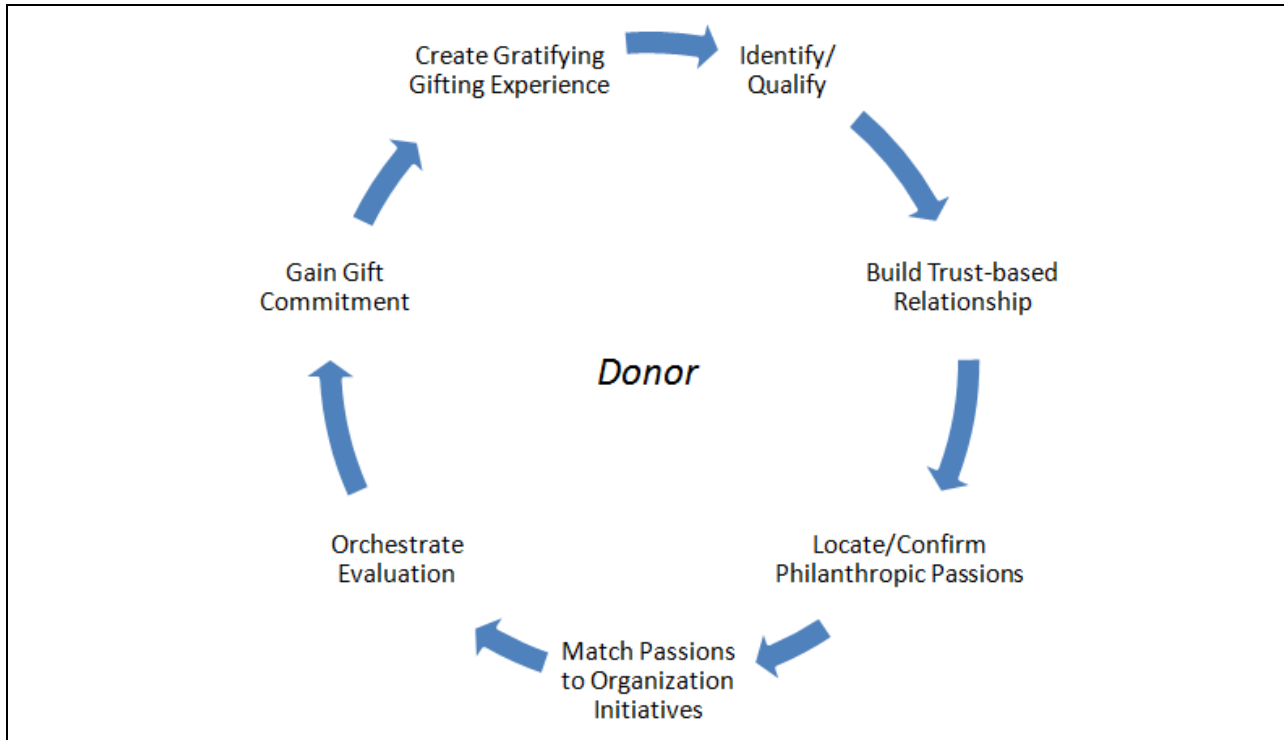


Figure 2: Updated fundraising model with focus on the donor (from Advancement Resources)



## The Donor Commitment Continuum

Instead of the traditional view of fundraising that puts the focus on the organization, think of a continuum that shows a donor’s emotional commitment to the mission of the organization:



Figure 3. Donor Commitment Continuum

The diagram above comes from Advancement Resources’ *Art & Science of Donor Development* course. It illustrates how donor commitment and donor development begin with recognition of the organization and what it does (Awareness) and then advances. The purpose of every contact with donors is to help them advance to the right on the continuum. As you move through the process of donor development repeatedly, you will enable donors to deepen their commitment to your organization and its mission. The further to the right they are, the larger the potential gifts.

## Where Do Our Donors Come From?

The University of Colorado’s donor base includes alumni, parents, friends, patients, private foundations, and corporations. The database, Advance™ Web, contains records for these donors on two levels:

- **Entities** – records of friends, alumni, foundations, corporations, parents, trustees, and faculty associated with the university.
- **Prospects** – entities that have a capacity for donating to the university. Prospects can be in various stages of development.

## What are the Stages of Donor Development?

The university’s relationships with prospects can be in various stages as follows.

- **Identification** – Qualifying a prospect. Through identification, an organization determines that a prospect has giving potential based on information from prospect research, senior leadership, development staff, university faculty and staff, volunteers, or other constituents of the university. Prospect research is the organized research of potential donors to identify new sources of funding and maximize fundraising efforts.
- **Cultivation** – Building a relationship. Contact with the prospect is focused on bringing the donor closer to making a gift. Meetings with the donor, and possibly with university faculty and staff, are conducted in order to understand the donor’s philanthropic interests and passions. Through cultivation, the development officer finds giving opportunities that inspire donors to give.



- **Solicitation** – Gaining gift commitment. During solicitation, a formal ask (proposal) is made to the prospect. Details about the gift amount and donor intent are being finalized. Solicitation is not about asking for money – it’s about opportunity and asking for better buildings, scholarships, and to fulfill the donor’s passions and interests at the University.
- **Stewardship** – Creating a gratifying gifting experience. Thank the donor and sustain donor interest. Follow-up communications are provided to the donor to show status, progress, and impact of the gift.

## What are the Different Types of Gifts?

There are many types of gifts and terminology describing gifts...

### Outright and In-Kind Gifts

Outright gifts can be cash, securities, or real estate. An outright gift can be made in one lump sum or it can be in the form of a multi-year pledge or a qualified distribution from an IRA. Gifts can also be in the form of goods or professional services donated rather than cash; these gifts are called in-kind gifts.

### Matching Gifts

A matching gift is a charitable donation made toward a non-profit organization by a matching donor, such as a corporation (e.g., an employer) under the provision that an original donor (e.g., an employee) first makes a gift toward that organization. Usually, matching gifts are equal to the amount given by the original donor.

### Loyalty Gifts vs. Passion Gifts

A loyalty gift is made by a donor who is faithful to a cause or institution, such as a former graduate who pledges a gift on an annual basis. A passion gift is usually a larger gift that is donated to a program or cause in which the donor is emotionally invested, for example a donor who establishes a fund in memory of a loved one.

With loyalty gifts, the organization or donor determines the amount, the solicitation or “ask” occurs before evaluation, and is usually a gift that does not represent to full capacity of the donor.

With passion gifts, the donor defines the potential amount, evaluation occurs before the ask, and the donor is emotionally invested in the impact the gift will make on the lives of others and/or the advancement of the institution.

Loyalty gifts are about helping the organization achieve its goals. Passion gifts are about helping donors achieve their goals.

### Major Gifts

A major gift is a significant donation. The category of “major gift” is used inside a fundraising organization and the level, or levels, of a major gift can vary.



From the organizational perspective, a major gift is a large donation of money or assets that meets the size criteria established by the organization and is usually given to realize a specific program or project. From the donor's perspective, a major gift is not defined by the criteria of the organization, but by the significance placed on the gift by the donor. A major gift requires the donor to take time to consider whether to make the gift, consult family members, and seek advice from outside professionals.

### **Capital Gifts**

A capital gift is made to support a capital project, such as new buildings or for improvements to existing land or buildings.

### **Honorary and Memorial Gifts**

Some donors are inspired to make gifts to pay tribute (honor) or memorialize an individual. Usually, one individual works to create the associated fund and gifts from multiple sources are combined into that fund.

### **Test Gifts**

Some donors like to make a test gift, which is a gift that lets them start a relationship with an organization and see how it develops. In these instances, a donor may give a gift that is smaller than his/her capacity in order to "test" how the institution applies the funds and stewards the donor. If the donor is not stewarded appropriately, he or she may move onto another organization. If however the donor is stewarded in such a way as to see the impact of a gift, or the philanthropic ROI, that donor is more likely to make a larger gift in the future.

### **Where Do Gifts Go?**

Gifts to the University of Colorado are received by the University of Colorado Foundation, which acts as a contracted, non-profit partner to the University. 100 percent of the gift then goes directly to support the campus, college, school, or program that the donor has designated. Donor gifts are put into funds, which the Foundation manages, and the University draws from those funds when needed. There are different types of funds:

#### **Current Funds**

A current fund functions like a checking account. Funds are deposited with the expectation that monies will be disbursed within a few years. At CU, the minimum for establishing a current fund is \$10,000.

#### **Endowment Funds**

Endowments are permanently invested, generating interest that is used for the purpose the donor chooses to support. A portion of the interest earnings is reinvested in the endowment's principal each year, enabling it to grow and provide an enduring stream of income. At CU, the minimum for establishing an endowment is \$25,000.



Among the institutions that commonly manage an endowment are: academic institutions (e.g., colleges, universities, private schools), cultural institutions (e.g., museums, libraries, theaters, hospitals) and religious establishments.

An endowment typically includes stipulations regarding its usage. In some circumstances an endowment may be required to be spent in a certain way or alternatively invested, with the principal to remain intact in perpetuity or for a defined time period. These stipulations allow the gift to have an impact over a longer period of time than if it were spent all at once.

Academic institutions, such as colleges and universities, will frequently control an endowment fund that finances a portion of the operating or capital requirements of the institution. In addition to a general endowment fund, each university may also control a number of restricted endowments that are intended to fund specific areas within the institution. The most common examples are endowed professorships (also known as named chairs), and endowed scholarships or fellowships.

- **Restricted endowments:** Endowment revenue can be restricted by donors in numerous ways. Professorships and endowed scholarship/fellowships are the most common restriction on large donations to an endowment. The restricted/unrestricted distinction focuses on the use of the funds; see quasi-endowment below for a distinction about whether principal can be spent.
- **Endowed professorships/chairs:** An endowed professorship, or chair, is a position permanently paid for with the revenue from an endowment fund specifically set up for that purpose. Typically, the position is designated to be in a certain department. Endowed professorships help the university by providing a faculty member who does not have to be paid entirely out of the operating budget, allowing the university to either reduce its student-to-faculty ratio, a statistic used for college rankings and other institutional evaluations, and/or direct money that would otherwise have been spent on salaries toward other university needs. In addition, holding such a professorship is considered to be an honor in the academic world, and the university can use them to reward its best faculty or to recruit top professors from other institutions.[]
- **Endowed scholarship/fellowship:** An endowed scholarship is tuition and possibly other cost assistance that is permanently paid for with the revenue of an endowment fund specifically set up for that purpose. It can be either merit-based or need-based (which is only awarded to those students for whom the college expense would cause their family financial hardship) depending on university policy or donor preferences. Some universities will facilitate donors' meeting the students they are helping. Fellowships are similar, although they are most commonly associated with graduate students. In addition to helping with tuition, they may also include a stipend. Fellowships with a stipend may encourage students to work on a doctorate. Frequently, teaching or working on research is a mandatory part of a fellowship.



## How Can Endowment Funds be Spent? – Pure vs. Quasi

Endowments can be either Pure or Quasi, which defines how the principal of the endowment may be used:

- **Pure (or True) Endowment funds:** Gifts received from donors with the restriction that the principal or gift amount is to be retained in perpetuity and cannot be spent.
- **Quasi-endowment funds:** Gifts received without a restriction that the principal be held in perpetuity, allowing the principal to be spent when earnings are not sufficient for distribution.

## How Do I Learn More?

The university offers several opportunities to learn more about donor development:

### Instructor-Led Training

- *Art & Science of Donor Development* – focuses on developing donor commitments for major and principal gifts. This two-day workshop is facilitated by Advancement Resources. The highly-interactive nature of the workshop includes structured, small group activities with accompanying role-play experiences.
- *Gift Administration Overview and Gift Agreement Training* – covers information about gift and grant agreements as well as available resources.
- *Accounting System (Blackbaud) Training* – introduces you to the Accounting department and covers account structure, gift transfer to the University, endowments, and reporting.
- *Reporting Orientation* – covers the objectives and functions of the Reporting department and its support of Advance.
- *Research Orientation* – introduces you to the Research Services department and includes how to request research assistance.
- *Processing Orientation* – provides an overview of the Gift & Records Processing department.
- *Planned Giving Orientation* – covers how the Gift Planning department assists donors and their personal advisers with gifts of complex assets.

Check Skillsoft, for dates and times that these courses are offered.